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Saving the state's money

Albany

1915

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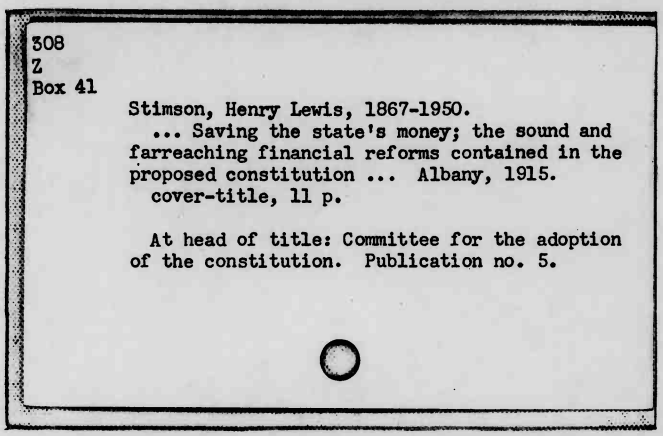
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SAVING THE STATE'S MONEY

The sound and far-reaching financial reforms contained in the proposed Constitution

BY

HENRY L. STIMSON

Chairman, Committee on Finance of the Constitutional Convention

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1915
COMMITTEE FOR THE ADOPTION OF THE CONSTITUTION
23 Washington Avenue
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Saving the State's Money

SAVING THE STATE'S MONEY

The sound and far-reaching financial reforms contained in the proposed Constitution

By HENRY L. STIMSON
Chairman of the Committee on Finance of the Constitutional Convention

The checking of waste and extravagance in government means more than the saving of money, important as that is. It is a maxim of history that republics do not perish from outside violence, but rather from the steady growth of their own extravagance, and consequent corruption. Few realize just how vital it is to the welfare of the State that the problem of preventing extravagance should be solved.

New York's per capita public debt:

Twenty years ago we had practically no State debt. To-day our already contracted State debt amounts to $186,000,000, and the already authorized debt to $231,000,000. We have not only the largest total state debt, but the largest per capita debt of any State in the country. The same is true of the debts of our cities and counties. The county and municipal debt of New York State is $107.71 per capita. The next highest in the Union is $70.21 per capita,

in the State of Washington. Illustrating these figures in another way: If the state, municipal and county debts of New York were spread over its acreage, there would be a debt of $48 per acre throughout the State. If you excluded New York and confined your calculations to the rest of the State even then there would be a debt of over $13 on every acre in the State. So much for debt.

The mounting cost of state government:

How is it as to extravagance in the cost of government? The general expenses of running the state government have increased nearly 600% in thirty years, while the population of the state has increased only 82%. Cost of government is increasing very much more rapidly than either population or the sources of taxation. Much of this increase in cost comes from additional activities of government. There is little reason to suppose that these activities can be greatly decreased in the future. As our population increases, more and more will be demanded from government. Therefore, the question of economy and efficiency in spending what we do spend will become constantly more acute. In the past we have not suffered from our loose methods as much as we otherwise should on account of our youth and the large resources of the country. There is every indication now that this state of immunity is about over. Two years ago, for example, the Governor of this State pointed out that we had about reached the limit of possibilities of indirect taxation and that hereafter our growing expenses must be met by increased direct taxation.

The Constitutional Convention was greatly impressed by these dangers and problems, and it has sought to meet them by increasing the efficiency and economy of our government in its financial operations. Its recommendations in these respects are among the most important of its proposals. They seek to give this State, for the first time, a really responsible system of government. Let us see what they are.

The serial bond reform:

Articles IX and XI of the proposed Constitution require that future bonds issued by the State or by its subdivisions must be serial bonds. Such issues have a certain portion of the principal paid off each year. If the bond issue be for twenty years, one-twentieth of the issue must be paid off each year. Instead of remaining uniform, interest payments decrease steadily year by year.

The present method of borrowing money for permanent State improvements is by sinking fund bonds, the principal of which is not paid off until the very end of the period of years for which they were issued, and interest on the entire amount being paid each year. The advantages of the proposed system over the old are:

1. Its conservatism. Whenever an administration incurs debt it cannot unload all responsibility for its payment upon some future administration; on the contrary, it must itself begin to make provision for the payment of the first annual instalment of principal within one year.

2. Its accuracy. Our present sinking funds are

complicated and uncertain. In some years we have collected too much from the taxpayers; in other years we have collected nothing. For this method the serial bond substitutes a definite and easily ascertained figure of liability. There is no possibility of a miscalculation.

3. Its safety from the danger of loss and of political manipulation. Sinking funds have to be invested and taken care of by public officers. There is always the danger of losses. For instance, the State of Mississippi once saw a sinking fund shrink from $800,000 to $100,000 within ten years. Furthermore, this power to invest huge sinking funds gives to the public officer who holds that power a chance for political manipulation, which ought not to exist. He can invest in securities of any city, town or village in the State that he wishes to favor, and the temptation to make such investments for other motives than the safety of the funds is enormous. The serial bond method abolishes this risk and this temptation.

4. Its cheapness. If our present canal debt of $118,000,000 had been issued in serial bonds instead of the present sinking fund bonds, the State would have ultimately saved over $46,000,000 in the cost of the settling of that debt and interest.

The proposed Constitution also gives authority to refund present sinking fund state bonds with serial bonds. If this authority be used and the existing canal debt be refunded with serial bonds, a saving of over $30,000,000 can be effected under this one provision.

Bonds must not run longer than the life of improvements they buy:

This axiom of sound public finance is also contained in the proposed Constitution. The importance of this proposal can be easily seen.

In the past, we have issued fifty-year bonds for the construction of highways. Some 30% of the proceeds of these bonds have gone into the construction of the surface of highways, which cannot last more than from four to eight years. This means that for forty years after all advantage of the loan has been used up, the taxpayers will be paying interest on the loan. It is the worst kind of irresponsibility and extravagance. If the new Constitution is adopted the life of the bond must be adapted to the life of the improvement.

The State Budget:

Article V of the proposed Constitution, requiring the submission by the Governor of a responsible budget to the Legislature, I believe to be the most fundamental and far reaching of all the reforms attempted by the proposed Constitution.

At present, the financial estimates for running the State government during the next approaching fiscal year are made up by over 150 departments, boards or bureaus. They are then shoveled into the Legislature without reduction or pruning. In the Legislature, they are considered in the privacy of the committee room, and the final appropriation bills are passed in the hurry and confusion of the final hours of the session. Millions are voted away in

minutes, while the bills appropriating these sums are not even printed in their final form. During the last 21 years, only once — in 1902 — were they passed without an emergency message from the Governor, which dispensed with the formality of their being printed and upon the desks of the members.

No surer way could be found for inviting extravagance, waste and irresponsibility. No single officer of the State undertakes the public responsibility for making these estimates; and, in this respect, we violate the fundamental principles of civilized government and of all successful business.

We cannot expect economy in the future unless some one man will have to lie awake nights to accomplish it. The only way to stop waste is for the people of the State to know exactly whose fault it is if waste occurs, or if the cost of government steadily rises without compensating increase in service rendered.

So the proposed Constitution provides that the estimates of all administrative departments shall be first submitted to the Governor, and shall be revised by him. The responsibility for securing an economical and systematic plan for the annual budget of the State is thus laid squarely on his shoulders.

When the Governor has reduced the estimates he formulates them into a budget, which is simply a financial plan showing how much money is needed and where it should come from, together with balance sheets of the State's resources and liabilities and statements of the expenditures of past years for

the purpose of comparison. He then transmits this budget to the Legislature not later than the first of February. He and his heads of departments have the right to appear before the Legislature and defend this budget. The Legislature has the right to call them and interrogate them about its items. The Legislature can cut down the budget but cannot add to it or raise its items and when they act upon the budget their action is final. The responsibility is thus placed squarely upon the Legislature to make the final decision as to how much money shall be appropriated. They cannot swell the appropriation bills in reliance upon the Governor's veto to prune them down, as so often happens under our present system. The result of this system will be that instead of having appropriation bills reported and passed within the space of a few hours in the close of a session, they will be brought to the attention of the entire state early in the session and will be debated, not in the secrecy of committee, but on the open floor of both houses.

After the Governor's budget is passed, a limited power of appropriation is left in the hands of the Legislature, subject to the Governor's veto. This power will be sufficient to correct a case where the Governor has clearly gone wrong in his budget. But it cannot be made the means of destroying the economies of a good budget without the taxpayers of the State being made aware of it.

A further protection against unwise expenditure:

The proposed Constitution makes a further proposal for reform in our legislative methods of financial appropriations. Appropriations for local improvements have been a source of great abuse in the past. The State's money has been wasted on bridges, buildings, dredging of streams, and other local improvements which should have been paid for by the county, town or village which alone was benefited. It has been found easier to bleed the state treasury than to make such improvements at county expense when they would have to pass the scrutiny of a vigilant local body of taxpayers. The proposed Constitution provides that hereafter no public moneys shall be appropriated for the construction of any work until plans and estimates of the cost of the work shall have been first filed by the Superintendent of Public Works, together with a certificate by him as to whether or not, in his judgment, the general interests of the State then require that such improvement be made at State expense. This amendment makes it somebody's business to report upon a question which too often has been nobody's business in the past.

It was the general concensus of the Convention that it would do more to stop a prevalent form of legislative graft than almost any other amendment proposed in the Constitution.

Conclusion:

Taken as a whole, the financial proposals of the proposed Constitution seek to stop the growing

extravagance and corruption which is gnawing at the vitals of our State government by introducing the much needed principles of responsibility and publicity into our methods. They seek to bring into our public business the same methods of foresight and planning and adjustment of expenditure to revenues that have been long familiar and indispensable principles of common sense in the affairs of successful American business.

MSH # 20875

Committee for the Adoption of the Constitution

James W. Wadsworth, Jr.	*Chairman*
Otto T. Bannard	*Treasurer*
Robert S. Binkerd	*Secretary*

Formed pursuant to a call of September 13, 1915, signed by the following citizens:

Joseph H. Choate	New York
Charles Andrews	Syracuse
Andrew D. White	Ithaca
D-Cady Herrick	Albany
Alton B. Parker	New York
Ansley Wilcox	Buffalo
Adelbert Moot	Buffalo
David Jayne Hill	Rochester
Thomas B. Dunn	Rochester
William Nottingham	Syracuse
Thomas R. Proctor	Utica
Otto T. Bannard	New York
George E. Dunham	Utica
Walter Whitbeck	Port Henry
Jacob H. Schiff	New York
Elliott C. McDougal	Buffalo
Nicholas Murray Butler	New York
William M. Calder	Brooklyn
William A Prendergast	Brooklyn
R. Fulton Cutting	New York
Edmund Platt	Poughkeepsie
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Chas. M. Hamilton	Ripley
Francis Lynde Stetson	New York
Charles A. Richmond	Schenectady
Robert W. de Forest	New York
Frank A. Munsey	New York
George Eastman	Rochester
George Gordon Battle	New York
William H. Childs	Brooklyn
William Jay Schieffelin	New York

The work of this Committee is supported by voluntary contributions from private citizens.

We solicit a contribution from you:

Checks should be made payable to the Committee and sent to Otto T. Bannard, Treas., 26 Broad St., New York City.

Requests for information and offers of assistance should be addressed to Robert S. Binkerd, Sec'y, 23 Washington Ave., Albany.

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